

**Finance Committee**

Distr.: General
1 May 2018

Original: English

Twenty-fourth session

Kingston, 2–27 July 2018

Item 11 of the provisional agenda*

Status of overhead charges for the administration and supervision of contracts for exploration and their reflection of costs actually and reasonably incurred

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Report of the Secretary-General

1. At a meeting held during the twenty-third session, and in line with section 10.6 of the annex to the decision of the Assembly concerning overhead charges for the administration and supervision of exploration contracts (ISBA/19/A/12), the Finance Committee requested the Secretary-General to further assess the costs of administration and to consult with the contractors on possible cost-saving measures (see ISBA/23/A/8-ISBA/23/C/10). The Committee also stated that it would, in all likelihood, recommend an adjustment of overhead charges in 2018. The present report responds to that request and provides the current cost assessment.

2. In 2013, on the recommendation of the Finance Committee, the Assembly decided to require each contractor with the Authority to pay a fixed annual fee to cover overhead costs for the administration of exploration contracts in the Area. The fee was set at \$47,000 per year per contract (ISBA/19/A/12). In fixing the fee, the Committee applied the system developed by the United Nations Development Programme of applying standard costs to contract administration and supervision. The actual amount of the costs calculated by the Secretariat on that basis in 2013 was \$52,182.

3. Standard costs were applied as from 1 January 2013, with payments to be made by contractors by 31 March annually. Those payments are credited to the administrative budget, thus offsetting the costs to members of the Authority.

* ISBA/24/FC/L.1.



4. It was agreed that the standard costs would be reviewed periodically to ensure that they were commensurate with actual costs. Such an exercise was carried out at the end of 2016 by extrapolating the 2012 figures to 2016 figures. The same exercise was conducted at the end of 2017. The methodology used is outlined below:

(a) Costs as defined in 2013 using 2012 figures are matched to the 2012 trial balance;

(b) Costs are adjusted to 2017 figures (using the same ranges of accounts as in 2012);

(c) As the standard methodology for the administration and supervision of contracts has not changed, it is assumed that the adjusted figures represent the true cost of administration for 11 contracts in 2017.

5. Table 1 below contains a comparative analysis of 2012 expenditures and extrapolated figures for 2017. The 2012 cost structure has been maintained, except for the figures for translation services, which represent actual costs.

Table 1
Evolution of standard overhead costs for administering and supervising contracts, 2012–2017
(United States dollars)

<i>Budget line</i>	<i>2013 survey (11 contracts)</i>	<i>2012 value from trial balance</i>	<i>2017 value from trial balance</i>	<i>Variation, 2012–2017 (percentage)</i>	<i>Adjusted 2017 value</i>	<i>Extrapolated 2017 value (27 contracts)</i>
Salaries and post adjustment	204 000	2 477 484	2 923 979	18.02	240 765	585 277
Common staff costs	101 000	1 210 009	1 472 935	21.73	122 947	397 221
Workshops	102 000			31.35	137 258	346 051
Equipment rental	16 700			-90.07	1 545	3 792
Documentation	78 480			-28.22	60 235	155 902
Meeting services	33 400			101.99	73 207	151 037
Translation	28 400				24 366	59 808
Miscellaneous	10 020			17.79	8 684	26 425
Total	574 000					1 725 513
Number of contracts	11					27
Contract costs	52 182					63 908

6. The number of contracts managed rose from 11 in 2012 to 27 in 2017. The larger number of contracts entailed increased human effort in the supervision and management of contracts, requiring increased capacity within the Authority. The increase also caused total costs to grow from \$574,000 in 2012 to \$1,725,513 in 2017.

7. Table 2 shows the estimated actual cost of administering contracts in 2017, which amounted to \$63,908 per contract, representing a 22.5 per cent increase from the amount calculated in 2012 or a 3.4 per cent increase per annum, as also reflected in the last column of table 1.

Table 2
Costs of administering and supervising exploration contracts in 2017
(United States dollars)

<i>Budget line</i>	<i>Estimated costs</i>
Salaries and post adjustment	21 677
Common staff costs	14 712
Workshops	12 817
Equipment rental	140
Documentation	5 774
Meeting services	5 594
Translation	2 215
Miscellaneous	979
Total	63 908